

VZCZCXYZ0000
RR RUEHWEB

DE RUEHGB #3616/01 3191402
ZNR UUUUU ZZH
R 141402Z NOV 08
FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC 0391
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS BAGHDAD 003616

NEA/I/ECON

SIPDIS

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [SOCI](#) [PREL](#) [IZ](#)

SUBJECT: HOPE FOR THE FUTURE: IRAQI BUDGET EXECUTION

REFS: A) BAGHDAD 508, B) BAGHDAD 3394, C) BAGHDAD 3438

¶1. Summary. Budget execution in Iraq remains a challenge as the GOI strives to develop infrastructure, provide essential services to the populace and devolve authority to provincial governments. Although vestiges of the Saddam-era command economy and the loss of skilled workers complicate matters and stifle efficiency, the amount of funds being expended by the GOI has increased significantly since ¶2006. Supported by Embassy Baghdad's Public Finance Management Action Group (PFMAG), PRTs play an important role in promoting budget execution by working with provincial officials to improve budget planning and commitment of funds. The Embassy has organized a series of training programs to assist in this effort. End summary.

¶2. The USG's role in Iraq has transitioned to helping facilitate the GOI's efforts to govern and develop Iraq itself. The GOI's ability to provide essential services to the Iraqi public is key to improving their quality of life, which will help increase stability and defeat the insurgency. Although GOI efforts at budget execution have been frustrating, the results are improving. In 2008, Iraq is on track to expend almost 70 percent more than it did in 2007 on its overall budget (\$45 billion versus \$26.6 billion).

¶3. Recently, the Embassy created PFMAG to augment the PRTs in their effort to improve budget execution (see ref tel A). PFMAG concentrates its efforts on the various provinces' capital budgets because this is where it can have the most impact (much of the rest of the budget is dominated by relatively fixed costs such as payrolls). The capital budget is also a key source of infrastructure and development funding. In addition, helping the provincial governments to spend their budgets wisely as they determine what is best for the province (subject the GOI approval) helps to promote decentralization.

¶4. Budget execution is normally measured in terms of the percentage of the budget spent. However, the Iraqi budget, and especially the provincial capital budget portion, has increased so dramatically in recent years that it has challenged the provinces' capacity to absorb it - a problem most countries would love to have. After increasing 20 percent in 2007 over 2006 (from \$2 billion to \$2.4 billion), the provincial capital budget rose another 54 percent in 2008 (to \$3.7 billion). Then in August 2008, a supplemental budget of \$3.6 billion, or 97 percent of the original budget, was approved. In other words, from 2006 to 2008 the provincial capital budget increased 265 percent, not including over \$500 million in reconstruction funds approved in 2008 for five cities damaged in GOI counter insurgency operations.

¶5. The metric of percentage spent will always yield a pessimistic result when the denominator increases this dramatically. In terms of the actual amount of dollars disbursed, the GOI is doing a much better job. Spending grew 16 percent from 2006 to 2007 (\$642 million to \$745 million) and through August 2008 disbursements (\$1.7 billion) were already 132 percent higher than for all of 2007. Many unspent 2006 funds were rolled over and spent in 2007 and 2008, and significant amounts of 2007 funds were actually spent in 2008 -

meaning that some provinces were executing three years of budget funds simultaneously.

¶16. Budget execution is not only about spending money but spending it effectively. This large funding influx has challenged the provinces' absorption capacity, in large part due to a shortage of budget professionals, project managers to oversee the building process (see reftels B and C) and construction contractors to carry out the work. Many international construction firms hesitate to work in Iraq because of security concerns, leaving less experienced local firms to perform most of the work. Many PRTs report increasing levels of corruption, poor quality of workmanship as contractors rush through one job to get to the next, and greatly inflated prices as demand for services outstrips supply.

¶17. The USG has previously provided several budget execution training programs to members of the GOI, but loss of budget professionals due to emigration or de-Baathification, leads most PRTs to report a shortage of working level professionals to make Iraq's budget system work. The Embassy's Office of Provincial Affairs (OPA), in conjunction with PFMAG, has organized a series of training programs for PRT members. In October, approximately 75 PRT members and military personnel representing 23 PRTs/ePRTs/REOs and CJ-9 attended a work shop on how they can work with their provincial contacts to help promote budget execution. The program bundled the results of several USG-funded programs in Iraq into a more complete package.

¶18. In the next step of this training program, PFMAG will work with PRTs to identify 3-4 projects in each province to monitor and help usher through the system to help assure faster execution. PFMAG members have subsequently traveled to the provinces of Ninewa, Anbar, Salah ad Din and Erbil to work with PRT members and provincial leaders in this regard. This "retail" form of budget execution also will allow PFMAG to identify specific problems it can address with the appropriate central ministry, including the Ministry of Finance (MOF) to get direct intervention.

¶19. The Embassy plans more training in November. First, OPA and PFMAG will host follow up training for PRT and military personnel to hear from representatives from the Ministry of Planning and Development Cooperation (MOP), the MOF, the Iraq Trade Bank and representatives from provincial governments about what they see as the problems with budget execution. USAID and the GOI will conduct separate budget planning and budget execution training programs for provincial officials.

¶10. Comment. Most of the news on Iraqi budget execution has been bad, but it is important to recognize the successes in order to build on them. USG training programs have a long way to go before they achieve the desired results, but progress is being made. In addition to demonstrating improved levels of budget execution, increasingly larger numbers of young Iraqis are gaining training and experience in the field of budget management thanks to the efforts of PRTs and other USG-funded programs. These people are a fledgling class of technocrats that Iraq can utilize for its future development and they represent success in efforts at capacity building.

CROCKER